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P.O. Box 15830, Sacramento, CA 95852-1830; 1-888-742-SMUD (7683)

January 31, 2006

Eileen Wenger Tutt
Special Advisor to the Secretary
Climate Action Team
California Environmental Protection Agency
Sacramento, California 95812

**RE: Comments to Climate Action Team's "REPORT TO THE GOVERNOR AND
LEGISLATURE", Dated 8 December 2005**

The Sacramento Municipal Utility District, SMUD appreciates the opportunity to submit these comments on the California Climate Action Team's Report to the Governor and Legislature. The CAT agencies and dedicated staff have done a remarkable job of coalescing and channeling the broad body of germane State information and programs that form the basis for existing and near-term action to meet Greenhouse Gas emission reduction goals as stated in Executive Order S-3-05. Until EOS-3-05, State climate change related policy, though clear in direction, lacked the unifying goals needed to relate specific actions to required success. It is clear that California's demand for electricity and the electric utilities that supply it are a significant contributor to Ghg emissions either through direct combustion of fossil-fueled generation owned by utilities or by virtue of the power we contract for. SMUD recognizes the threat that climate change and global warming will present to global society and to California. We will continue to work with the State in developing our proper role, taking responsible action to uphold State policies.

SMUD has worked for more than a decade with State and Federal agencies, industry groups, and other stakeholders to better understand the issues surrounding Climate Change and to identify, clarify, and produce useful broadly accepted Greenhouse Gas emissions accounting methods and reporting forums. We believe our focused efforts in this area have been helpful to the State and other stakeholders. In 2001, SMUD voluntarily adopted a 20% RPS by 2011. This happened to precede statewide RPS legislation and similar requirements on the IOU's, but more important it was local control responsibly aligning it's plan with developing State policy, as we perceived it, and in a way that is compatible with our resource mix and economic constraints

SMUD believes that the flexibility to work progressively on portions of the problem that we can bring value to has enhanced our worth in resolving climate change issues. In these voluntary efforts we certainly were guided by State policies as well as local input and the economic realities of operating a local control utility. We believe that continued voluntary response by Publicly Owned Utilities to State policy on climate change and greenhouse gas emissions will allow the highly diverse POU communities to focus their efforts on those climate change mitigation solutions they can be most successful at.

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Allowing POU's to develop Climate Action Plans as recommended by the CEC's Integrated Energy Policy Report and supported by CMUA will preserve local control while still achieving the goals that have been laid out. This will bring enhanced overall value to the State in reducing Ghg and responding to climate change relative to simple regulatory compliance in a one size fits all model.

Scenario Analysis

Inclusion, both in the report and by reference, of the considerable science based climate change scenario analyses gives this report to the Governor and Legislature the needed context for action by the State. The nature of non-linear systems means that a specific future cannot be predicted, however the progress made in interpreting regional climate change from global climate models is impressive. The CAT's "Implications for Mitigation and Adaptation" presenting Statewide average projected impacts plus footnotes (fig. 4-8) is a courageously concise summary of the existing family of projections. We believe the diverse geography of California and the range of temperature futures demand an even more refined description of possible outcomes. It is important that where local geography can amplify or mitigate the Statewide average change, that this information be presented as clearly as possible and accessible to policy makers in the affected region.

Specific Strategies to Meet Ghg Reduction Goals

Persistence of infrastructure - For both existing and still developing Ghg reduction programs and strategies, projected reductions are evaluated for their annual impacts in the years 2010 and 2020. This is good as it focuses the State on progress toward meeting the specific overall reduction goals. However, much of energy infrastructure as well as energy demand practices (e.g., power plants, industrial sites, housing) have lifetimes and infrastructure inertial effects that can affect ghg emissions far beyond the 2020 time frame. Therefore, in progressing towards meeting the mid-term reduction goals, State policies must be cognizant of the problem of allowing actions that may be compatible with mid-term goals, but once built would preclude or seriously hamper attainment of the long term goal of reducing to 80% below 1990 emission levels.

Embarking upon an infrastructure change of this magnitude in a long term process is the right way to proceed. Equally important is the need for constancy of goals and unflagging support of efforts needed to achieve those goals. Clear deliberate policy setting process going forward and avoidance of programs and policies that create market volatility or threaten grid reliability will be important attributes of a successful changeover to a non-carbon future. Stability of State Policy will be essential to effect these changes while continuously providing energy services that a growing California population needs, and doing so at low cost.

Mandatory Reporting of Ghg – SMUD supports public, entity-wide reporting of Ghg emissions using standardized protocols that are easy and practical to use and that yield reliable, consistent, repeatable emission totals of sufficient accuracy. Notably the California Climate Action Registry has achieved this for the industry types that have

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voluntarily joined and worked for common solutions. Success comes through participation!

By participating in the Registry we have observed that third party certification is the key to developing truly standardized approaches and reports that are reliable and least cost. SMUD disagrees with the notion that mandatory reporting and storage of Ghg emissions cannot be managed under a non-governmental organization (sec. 7.7). We believe that reporting and storage is a separate function from enforcement. Continuing to develop standardized methods under the CCAR will yield better, more uniform, and less expensive process than internalizing the existing CCAR methods to State government, because CCAR capability and authority does not end at the State line. To be effective, State, National, and International emissions need to be able to be processed with these entity-wide protocols. The CCAR is clearly the lead institution in this. One of the foundations of the California Climate Change policy is that California-based business will export to others, products developed in response to California's programs. With the State's support, CCAR products have a very good opportunity to become a universally accepted, publicly available, reporting forum, and California will reap economic reward in turn.


If mandatory reporting is intended to be used as a first step towards a trading system, it must be developed with boundaries that include all sources necessary to meet the Governor's targets. Reporting must capture sizable out of state emission sources for services to Californians and activities or industries that could be substantial Ghg reduction trading partners across economic sectors. Mandatory reporting must be structured in a way that does not encourage entities to push emissions outside the reporting boundaries resulting in a leakage effect. The reporting requirement should be placed at the point where the decision on origin of the source occurs. Otherwise, the outcome is treated as a non-manageable pass-through. In the electricity sector accurate reports that include wholesale transactions will likely require an emissions tracking system that tags power as it flows from a generation source to the reporting entity. Without this information in place, mandatory reporting will push us into a system that encourages leakage and adds costs to the citizens of California without achieving the reduction goals laid out by the Governor.

State Regulatory Processes and Potential Impacts on Climate Change Objectives

Hydro Relicensing –State actions not an official part of the identified strategies could potentially reduce energy from zero Ghg emission resources. State action on Hydro-relicensing is a case in point. The State should consider the impacts on GhG emissions of requirements put on hydroelectric generation facilities during relicensing that result in reduced output. Established Hydro-electric generation, though a renewable energy resource with zero Ghg emissions, is not considered an "eligible renewable" for purposes of the RPS. Therefore, an unintended consequence of reduced hydro energy would be a replacement of that energy with fossil energy to achieve the same RPS. During a hydro-relicensing proceeding, we suggest that costs to a Utility associated with lost hydro generation, include a greenhouse gas adder equal to expected cost of CO2 permits over

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the life of the licensing period, and using the carbon intensity representative of the most likely source of replacement power.



H.I. Bud Beebe
Regulatory Affairs Coordinator
6201 S Street, M.S. B-257
Sacramento, CA 95817-1899

bbeebe@smud.org